

DRAFT

Florence Carlton Schools

Impact Fees to Fund Growth-Related Capital Improvements

Florence, Montana

August 8, 2006

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EXECUTIVE SUMMARY

An impact fee is a one-time payment imposed on new development for the purpose of constructing growth-related infrastructure. In 2005, the State of Montana passed enabling legislation which specifically authorized local government to enact impact fees on behalf of local districts, such as the Florence Carlton School District [see MCA 7-6-1603(1)(b)]. For school impact fees the Montana Act requires unanimous approval by the County Commissioners. Prior to enacting fees, local government must establish an Impact Fee Advisory Committee, with at least one representative of the development community and one certified public accountant. To cover the cost of establishing and administering an impact fee program, the Montana legislation authorized a surcharge not to exceed 5% of the total impact fee amount.

As documented in this report, the Florence Carlton School District impact fees meet all of the requirements of the Montana enabling legislation. The fees are proportionate to the infrastructure demands of new development and consistent with the level of service standard for existing development. The impact fee methodology includes applicable credits and summarizes the need for growth-related capital improvements over the next five years.

Basic Understanding of Impact Fees

In contrast to project-level improvements, impact fees fund growth-related system improvements that will benefit multiple development projects throughout the entire school district. It is important to highlight the fact that impact fee may not be used for operating costs or the replacement of existing capital items (e.g. replacing HVAC systems in an existing school). The basic steps in a generic impact fee formula are illustrated below (see Figure 1A).

The first step (see the left box) is to determine an appropriate demand indicator for the particular type of infrastructure. The demand indicator measures the number of demand units for each unit of development. For example, an appropriate indicator of the demand for schools is the average number of public school students per housing unit (see Figure 1B). The second step in the generic impact fee formula is shown in the middle box below. Infrastructure units per demand unit are typically called Level-Of-Service (LOS) or infrastructure standards. In keeping with the school example, common infrastructure standards are acres of school site and square feet of school buildings per student. The third step in the generic impact fee formula, as illustrated in the right box, is the cost of various infrastructure units. To complete the school example, this part of the formula establishes the cost per acre for land acquisition and the cost per square foot for school buildings.

Figure 1A – Generic Impact Fee Formula

Demand Units per Development Unit	×	Infrastructure Units per Demand Unit	×	Dollars per Infrastructure Unit
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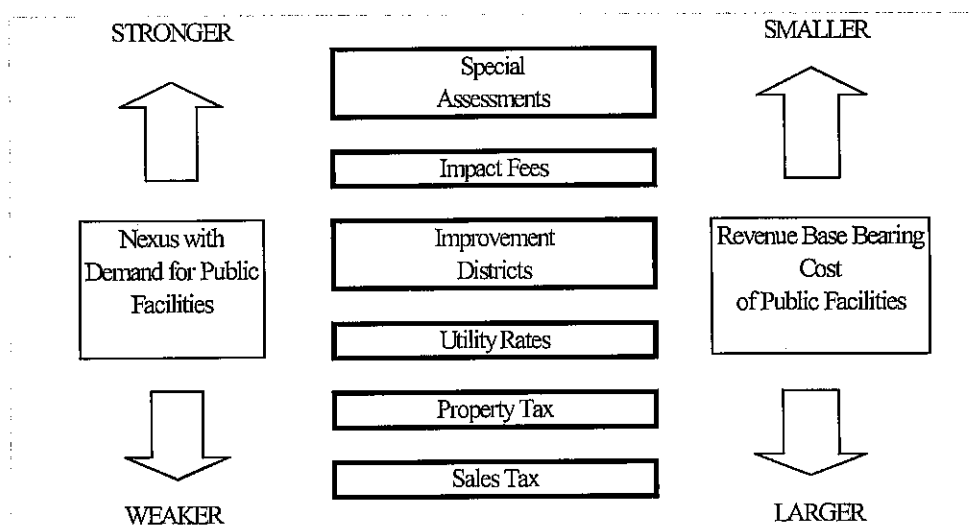
Figure 1B – Basic School Impact Fee Formula

Public School Students per Housing Unit	×	Square Feet of School Building per Student	×	Total Project Cost per Square Foot of School Building
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Why Impact Fees?

Infrastructure funding alternatives force decision-makers to wrestle with a dynamic tension between two competing desires. As shown on the left side of Figure 2, various funding options have a strong-to-weak connection between the source of funds and the demand for public facilities. It is unfortunate that the funding options with the closest nexus to the demand for public facilities also have the smallest revenue base to bear the cost of the public facilities (see the right side of the diagram below). For example, only new housing units generate school impact fees. In contrast, on-going revenues like property taxes are paid by existing development, plus new development that is added each year. Therefore, the property tax base continues to increase over time, but the increase in new housing units is relatively constant from year to year.

Figure 2 – Infrastructure Funding Alternatives



Source: Paul Tischler, Dwayne Guthrie and Nadejda Mishkovsky. 1999. Introduction to Infrastructure Financing. IQ Service Report, Vol. 31, No. 3. Washington, DC: International City/County Management Association.

By approving impact fees, elected officials are making a policy decision to change the funding sources for public schools. Implementing school impact fees decreases reliance on broad-based revenues, like property taxes, by adding a new revenue source that has a stronger nexus between new development and the demand for public facilities. As a dedicated revenue source, impact fees could provide significant funding for growth-related school capacity in the Florence Carlton School District.

Potential Revenue for School Funding

Florence Carlton School District has no surplus capacity for accommodating future development and faces a revenue shortfall for growth-related capital improvements. The potential magnitude of school impact fee revenue can be estimated using two independent variables (see Figure 3). First, potential impact fee revenue depends on the number of housing units constructed each year within the Florence Carlton School District. The second variable that will influence the potential impact fee revenue is the fee level adopted by the County Commissioners. The impact fee study identifies the maximum supportable fees based upon the technical analysis required by the Montana enabling legislation and general legal guidelines from court cases. After consideration of public input, elected officials may implement a fee schedule that is less than the maximum supportable amounts. The Florence-Carlton School District has already been requesting that new residential development make a capital contribution of approximately \$5,000 per housing unit. At this amount the annual addition of 40 housing units would conservatively yield \$200,000 per year in school impact fee revenue (see the upper left corner of the table below). At the maximum supportable level of approximately \$10,000 per housing unit, the same number of housing starts would yield \$400,000 in revenue. If the District experienced an increase in housing starts to 80 units per year, the maximum supportable impact fee would yield approximately \$800,000 per year in revenue (see the lower right corner of the table below).

Figure 3 – Annual Impact Fee Revenue Range

Fee Range	Housing Units Per Year		
	40	60	80
\$5,000	\$200,000	\$300,000	\$400,000
\$6,000	\$240,000	\$360,000	\$480,000
\$7,000	\$280,000	\$420,000	\$560,000
\$8,000	\$320,000	\$480,000	\$640,000
\$9,000	\$360,000	\$540,000	\$720,000
\$10,000	\$400,000	\$600,000	\$800,000

Maximum Supportable Impact Fees

Key factors used to derive school impact fees are summarized in Figure 4. The student generation rate (i.e. 0.42 public school students per housing unit) multiplied by the net capital cost of \$24,807 per student yields the maximum supportable impact fee of \$10,418 per housing unit. The current infrastructure standard of 146 square feet of school building per student and total project cost factor of \$175 per square foot of school building, as shown with yellow shading in Figure 4, are discussed further in the main section of this report.

The maximum supportable school impact fee schedule shown below does not include any land cost because Florence Carlton School District already has a 19-acre site for future school expansion.

Figure 4 - Maximum Supportable School Impact Fee Schedule

<i>Students per Housing Unit</i>		<i>Wt Avg</i>
All Housing Types		0.42

<i>Infrastructure Standards</i>		<i>Grades => K-12</i>
Acreage Per Student		0.000
Land Cost Per Acre		\$0
Land Cost Per Student		\$0
Square Feet Per Student		146
Total Project Cost Per Square Foot		\$175
Local Share of Project Cost		100%
Project Cost Per Student		\$25,550
Total Capital Cost Per Student		\$25,550
Revenue Credit Per Student		(\$743)
Net Capital Cost Per Student		\$24,807

<i>School Impact Fee per Housing Unit</i>		
All Housing Types		\$10,418

DEMOGRAPHIC DATA

This section of the report discusses development projections and student generation rates used in the impact fee calculations. The term “student generation rate” refers to the number of public school students per housing unit in the Florence Carlton School District. Public school students are a subset of school-age children, which includes students in private school and home-schooled children.

Housing Units

The US Census Bureau provides special tabulations of 1990 and 2000 demographic data by school district boundaries. According to 2000 Census data, the Florence Carlton School District averages 2.71 persons per housing unit (see Figure 5). Because all new housing units will pay a school impact fee at the time septic tank permits are issued, student generation rates are based on the entire housing stock. This approach is more conservative than dividing the number of public school students by the number of occupied housing units, which the Census Bureau refers to as households. At the time of the 2000 census, approximately 5% of the housing units in the Florence Carlton School District were vacant or seasonal units. Since 95% of all units are detached units (stick-built or manufactured homes) with similar demographic characteristics, it is not necessary to differentiate school impact fees by type of housing in the Florence Carlton School District.

Figure 5 – Average Number of Persons by Type of Housing

Florence-Carlton School District, MT

Units in Structure	Renter & Owner			Housing Units	Persons Per Housing Unit	Vacancy Rate
	Persons	Households	PPH			
1-Detached	3,887	1,317	2.95	1,395	2.79	5.6%
Mobile Homes	775	290	2.67	290	2.67	0.0%
1-Attached (Townhouse)	29	19	1.53	20	1.45	5.0%
Two (Duplex)	55	30	1.83	30	1.83	0.0%
3 or more	30	20	1.50	20	1.50	0.0%
Other	4	4	1.00	10	0.40	60.0%
Total SF3 Sample Data	4,780	1,680	2.85	1,765	2.71	4.8%

Source: Census 2000 School District Tabulation (STP2).

Demographic Trends 1990-2012

Decennial census data indicate that Florence Carlton School District experienced an average increase of approximately 67 housing units per year from 1990 to 2000. Since 2000, Ravalli County septic tank permit data for the geographic area that approximates the Florence Carlton School District indicates housing growth has averaged approximately 65 units per year. For the impact fee study, TischlerBise assumed the 65 unit per year increase over the past six years will continue for the next six years, as shown in Figure 6. Annual housing unit data were converted to population using the persons per housing unit multipliers derived from decennial census data.

Fall enrollment data for SY89-90 through SY05-06 were obtained from the Montana Office of Public Instruction and Florence Carlton School District staff. In the base year for the school impact fee analysis (i.e. SY05-06), housing units in the District averaged 0.42 public school students per housing unit. To forecast public school students over the next six years, TischlerBise used a linear trend extrapolation of the annual students per housing unit from 1990 through 2006, yielding a slight increase in the student generation rate from 0.42 in 2006 to 0.44 by the year 2012. Over the next five years, enrollment in the District is expected to increase by approximately 34 students per year.

Figure 6 – Demographic Data for School Impact Fee Study

Florence-Carlton School District				BaseYr	Yr1	Yr2	Yr3	Yr4	Yr5	Yr6
	SY89-90	SY99-00	SY04-05	SY05-06	SY06-07	SY07-08	SY08-09	SY09-10	SY10-11	SY10-12
	1990	2000	2005	2006	2007	2008	2009	2010	2011	2012
Fall Enrollment	635	968	921	911	944	978	1,011	1,046	1,080	1,108
Housing Units	1,100	1,765	2,117	2,157	2,222	2,287	2,352	2,417	2,482	2,547
Population	2,913	4,780	5,733	5,842	6,018	6,194	6,370	6,546	6,722	6,898
Stu/HsgUnit	0.58	0.55	0.44	0.42	0.42	0.43	0.43	0.43	0.44	0.44
Persons/HU	2.65	2.71	2.71	2.71	2.71	2.71	2.71	2.71	2.71	2.71
Annual Increase										
Fall Enrollment	30	3	(10)	33	34	33	35	34	28	
Housing Units	67	59	40	65	65	65	65	65	65	
Population	184	160	109	176	176	176	176	176	176	

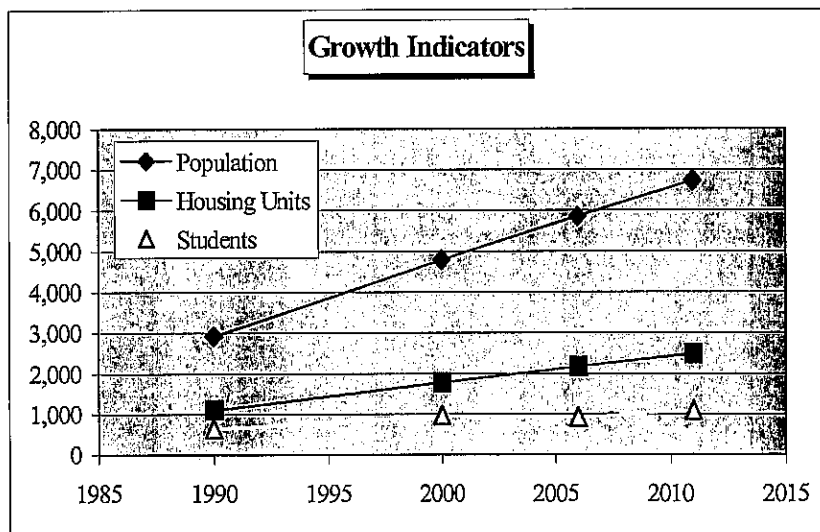
Summary of Growth Indicators

A graphic depiction of key growth indicators is shown in Figure 7. Over the next five years, public school students in the District are expected to increase at a simple growth rate of 3.7% per year. Housing units are forecast to increase by 3.0% annually. In comparison, the US Census Bureau estimated that Ravalli County housing stock increased by 2.1% annually from 2000 through 2005.

Figure 7 – Graph of Short-Range Projections

Florence-Carlton School District, MT

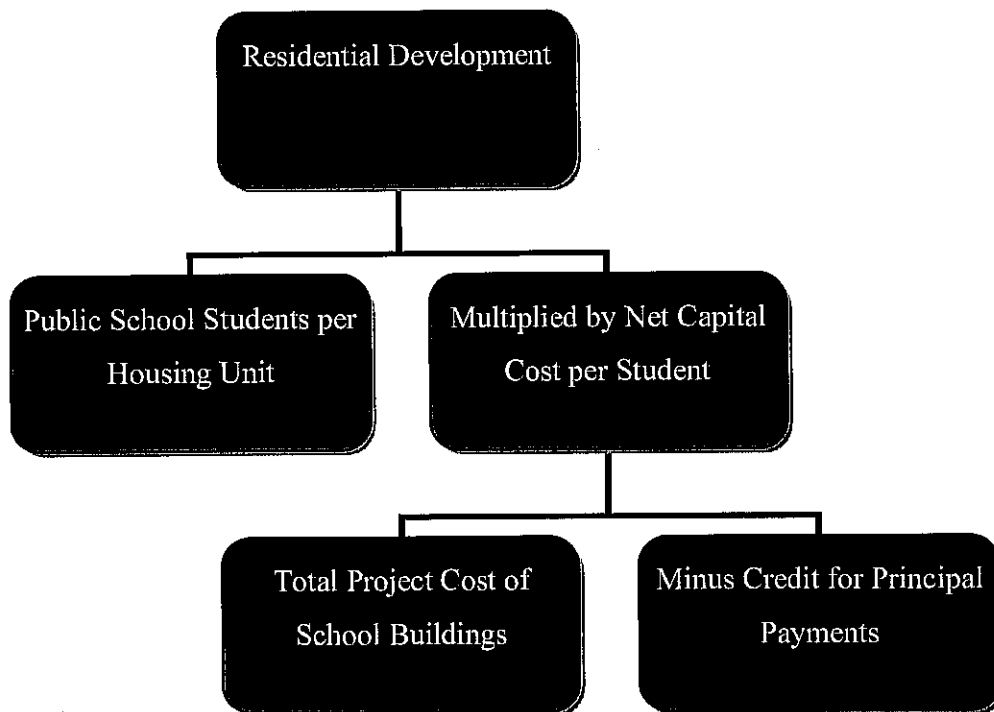
	1990	2000	2006	2011	2006 to 2011 Average Annual	
					Increase	Growth Rate
Population	2,913	4,780	5,842	6,722	176	3.0%
Housing Units	1,100	1,765	2,157	2,482	65	3.0%
Students	635	968	911	1,080	34	3.7%



FLORENCE CARLTON SCHOOL DISTRICT IMPACT FEES

The school impact fee methodology is based on the current public school student generation rate, existing infrastructure standard (i.e. school building square feet per student) and estimated local cost for school construction. Figure 8 illustrates the methodology used to calculate the fee. The basic formula used to derive the impact fees is to multiply the student generation rate by the net capital cost of public schools per student. To avoid potential double payment for school capacity, the methodology includes a revenue credit for principal payments on existing school debt. The school impact fee is conservatively limited to the cost of expanding school buildings, excluding the capital cost of support facilities and vehicles (e.g., school administration buildings and buses needed to transport students).

Figure 8 - Public School Impact Fee Methodology Chart



Public School Students per Housing Unit

Student generation rates are used to indicate the average demand for school facilities anticipated from new residential development. Thus student generation rates convert basic housing unit projections into the expected demand for additional public school capacity needed to accommodate new development. As discussed above in the demographic data section, dividing the Fall Enrollment of 911 students in SY05-06 by the estimated number of housing units in the district (i.e. 2,157 housing units in 2006) yields an average of 0.42 public school students per housing unit.

Infrastructure Standard for School Buildings

Figure 9 indicates that existing public school buildings in the Florence Carlton School District have a total floor area of 133,000 square feet. Based on the SY05-06 Fall Enrollment of 911 students, the current infrastructure standard is 146 square feet of school building per student. A site acreage standard was not derived because the District already has a 19-acre site for future school expansion.

Figure 9 – School Infrastructure Standards

	<i>Site Acreage</i>	<i>Building Square Feet</i>
1 K-12 School Facilities		133,000
2		
Total	0	133,000
2005-06 Fall Enrollment	911	
Per Student	0.000	146

Total Project Cost for School Buildings

The impact fee calculations are based on the assumption that Florence Carlton School District will provide 100% of the capital funding for new schools with no cost sharing by the State of Montana. A total project cost estimate of \$175 per square foot of school building was obtained from a local architecture firm and confirmed by TischlerBise using data published by Marshall

Valuation Service. For a subscription fee, Marshall Valuation maintains an extensive database of actual construction cost for various types of buildings, including public schools. In the Missoula area, the current basic construction cost for a school building is approximately \$125 per square foot of floor area. To finish the interior of the building with furniture and equipment adds at least 15% to the cost estimate. For a high school, that requires more technology equipment for labs and computers, a 20% multiplier is typical for the interior finish.

Outdoor site improvements are another significant component of the total project cost for a new school. The initial site preparation (clearing and grading), parking lots, athletic fields and landscaping add substantially to the total cost. For a new high school, exterior improvements typically add another 20% to the cost of the basic school building, yielding a total project cost of \$175 per square foot of school building.

Credit for Future Revenues

A general requirement that is common to impact fee methodologies is the evaluation of credits. A revenue credit may be necessary to avoid potential double payment situations arising from one-time impact fees plus the payment of other revenues that may also fund growth-related capital improvements. The determination of credits is dependent upon the impact fee methodology used in the cost analysis. There are three basic approaches used to calculate impact fees and each is linked to a different credit methodology. Given the incremental expansion cost method for public schools, whereby new development provides front-end funding of school capacity, there is a potential for double payment of capital costs due to future principal payments on existing debt for schools. A credit is not necessary for interest payments because interest costs were not included in the impact fees. As shown in Figure 10, TischlerBise derived a revenue credit per student based on the remaining principal payments on a General Obligation bond from 2001 that funded improvements to existing school facilities. To account for the time value of money, annual revenues per student were discounted at the bond interest rate of 4.35% per year using a present-value formula.

Figure 10 – Principal Payment Credit per Student

	<i>Principal Payments Refunding Bond Series 2001</i>	<i>Students</i>	<i>Credit Per Student</i>
2007	\$135,000	944	\$143
2008	\$140,000	978	\$143
2009	\$145,000	1,011	\$143
2010	\$150,000	1,046	\$143
2011	\$150,000	1,080	\$139
2012	\$165,000	1,108	\$149
TOTAL	\$885,000		\$861
		Discount Rate	4.35%
		Present Value	\$743

Growth-Related Capital Improvements Plan

To accommodate new development over the next five years, Florence Carlton School District will need to expand school buildings by approximately 24,700 square feet of floor area. At the anticipated total project cost of \$175 per square foot, the five-year need for growth-related improvements will cost approximately \$4.3 million. As part of its normal capital improvements planning process, the School District will decide the specific details regarding additional school capacity in the Florence Carlton School District. In the short-run, school capacity may have to be provided with the addition of portable classrooms. If an entire new school is constructed, the total cost will significantly exceed projected impact fee revenue over the next five years. The funding gap for a new school will depend in part on the design capacity. For example, a new high school might accommodate at least 500 students, yet the projected five-year increase is only 169 students, or approximately 34% of the total capacity in a new school.

At the maximum supportable level, impact fees for schools would yield almost \$3.4 million over the next five years. As shown in Figure 11, the cost of growth-related infrastructure for public schools exceeds projected revenue by an average of \$186,000 per year, due to the revenue credit for existing bond payments.

Projections of growth-related revenues and capital costs are based on the demographic data shown above in Figure 6. If actual development occurs at a faster rate than anticipated, impact fee revenues will exceed the amounts shown below, but so will the need for growth-related infrastructure. The converse is also true, if development occurs at a slower rate then growth-related revenues and capital costs will also decline.

Figure 11 – Cash Flow Analysis for Growth-Related Infrastructure

<i>(Current \$ in thousands)</i>	1	2	3	4	5	Cumulative	Average
	2007	2008	2009	2010	2011	Total	Annual
GROWTH-RELATED REVENUES							
School Impact Fees	\$677	\$677	\$677	\$677	\$677	\$3,386	\$677
						\$0	\$0
Total Revenue for Schools	\$677	\$677	\$677	\$677	\$677	\$3,386	\$677
GROWTH-RELATED CAPITAL COSTS							
K-12 School Capacity	\$843	\$869	\$843	\$894	\$869	\$4,318	\$864
						\$0	\$0
Total Cost for Schools	\$843	\$869	\$843	\$894	\$869	\$4,318	\$864
NET CASH FLOW- SCHOOLS						<i>Current \$ in thousands</i>	
Annual Surplus (or Deficit)	(\$166)	(\$192)	(\$166)	(\$217)	(\$192)	(\$932)	(\$186)
Cumulative Surplus (or Deficit)	(\$166)	(\$358)	(\$523)	(\$740)	(\$932)		

IMPLEMENTATION AND ADMINISTRATION

The Montana Impact Fees Act authorizes governmental entities to impose impact fees on behalf of local districts, such as the Florence Carlton School District. Because the geographic service area of the District extends into both Ravalli and Missoula Counties, school impact fees will require unanimous approval of both County Commissions. To minimize the need for intergovernmental coordination and administrative costs, TischlerBise recommends that both counties require direct payment of the school impact fee to the District prior to issuing a wastewater service connection or septic tank permit.

Florence Carlton School District must comply with the accounting requirements in the Montana Impact Fee Act. Impact fees are to be placed in a separate fund and only used for the purposes authorized by the Montana Code (i.e. growth-related capital improvements plus administrative costs related to the school impact fees, not to exceed 5% of the total impact fee collected).

All costs in the impact fee calculations are given in current dollars with no assumed inflation rate over time. Necessary cost adjustments can be made as part of the required periodic evaluation and update of fees. One approach is to adjust for inflation in construction costs by means of an index like the one published by McGraw-Hill in the periodical titled Engineering News Record (ENR). This index could be annually applied to adjust the adopted fee schedule. If cost estimates change significantly, Florence Carlton School District should redo the fee calculations. At a minimum, the growth-related capital improvements plan must be updated every two years.

If a specific development proposal is expected to have significantly different demand generators than those used in this study, Florence Carlton School District may allow or require a developer to submit an independent impact fee analysis with adequate documentation of alternative factors. Administrative procedures for the independent analysis should be included in the ordinance that implements the impact fees.

Single Service Area

A single district-wide service area is appropriate for collection and expenditure of school impact fees in the Florence Carlton School District because all grade levels are located at the same site. The 19-acre parcel for future school expansion is located across the street from the current schools. Adding portable classrooms or building a new high school will allow reconfiguration of existing buildings, effectively expanding school capacity for all grade levels.